

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00

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FM AMCONSUL ASMARA

TO SECSTATE WASHDC 3767

AMEMBASSY ADDIS ABABA

INFO AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOGADISCIO

CINCUSNAVEUR LONDON

COMNAVTELCOM WASHDC

USCINCEUR VAIHINGEN

COMIDEASTFOR

NAVCOMMUNIT ASMARA

NAVCOMMSTA NEA MAKRI

CNO WASHDC

C O N F I D E N T I A L ASMARA 0024

E.O. 11652: GDS

TAGS: ECON ET

SUBJECT: ERITREAN ECONOMY: INDUSTRIAL UPDATE

REF: 75 ASMARA 0748 (DTG 030845Z SEP 75)

1. SUMMARY: IN EFFORT TO UPDATE INFORMATION ON INDUSTRIAL SECTOR AS FOLLOW-UP ECONOMIC SURVEY IN SEPTEMBER (REFTEL), APO INTERVIEWED SENIOR BANKING OFFICIAL AND VISITED FOUR FACTORIES IN ASMARA. IT IS APPARENT THAT SINGLE GREATEST CONCERN IS PROCUREMENT OF RAW MATERIALS AND, TO LESSER DEGREE MARKETING OF FINISHED PRODUCTS, BOTH OF WHICH ARE LINKED TO ONGOING TRANSPORTATION DIFFICULTIES. YET IT IS EQUALLY APPARENT THAT WHEN THESE PROBLEMS REACH CRITICAL STAGE, CONFIDENTIAL

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EPMG MILITARY AUTHORITIES WILL RESPOND BY PROVIDING ADMINISTRATIVE

SUPPORT AND MILITARY FORCES TO RESOLVE PROBLEMS ON SHORT-TERM BASIS. THESE AUTHORITIES ARE LIKEWISE DETERMINED TO MAINTAIN EMPLOYMENT LEVELS EVEN WHEN SUCH LEVELS ARE NOT ECONOMICALLY FEASIBLE.

2. RAW MATERIALS: VISITS TO FOUR LOCAL FACTORIES (TWO TEXTILE PLANTS, GLASS CONTAINER FACTORY AND KNITWEAR PLANT WITH TOTAL EMPLOYMENT OF 4000) INDICATES THAT PRIMARY CONCERN OF MANAGEMENT IS PROCUREMENT OF RAW MATERIALS AND TO LESSER DEGREE MARKETING OF FINISHED PRODUCTS. BARATOLO TEXTILES, LARGEST FACTORY IN ERITREA, RECEIVED 80 TRUCKLOADS OF RAW COTTON IN NOVEMBER FROM THEIR PLANTATION IN TESSENNEY THEREBY FORESTALLING NECESSITY OF REDUCING OR POSSIBLY EVEN CLOSING DOWN PRODUCTION. THEY NOW HAVE SUFFICIENT RAW MATERIAL TO LAST THROUGH APRIL. THEY ARE UNDER PRESSURES, HOWEVER, TO ALLOCATE SOME OF THEIR RAW COTTON TO ETHIO FABRICS, SECOND LARGEST TEXTILE PLANT, AS BOTH FIRMS NOW ARE UNDER CONTROL OF NATIONAL TEXTILE CORP. ETHIO FABRICS CURRENTLY HAVE VERY LIMITED SUPPLY OF COTTON AND SYNTHETICS, AND PRODUCTION IS AT MINIMAL LEVEL, BELOW THAT REQUIRED TO JUSTIFY EMPLOYMENT OF 800 WORKERS. THEY HOPE TO SHIFT PRODUCTION TO SYNTHETICS (UP TO 125,000 SQ. MEERS PER MONTH) BUT ARE HAVING DIFFICULTY IN IMPORTING NECESSARY MATERIALS. CLASS CONTAINER PLANT, S.A.V.A., HAS BEEN ABLE TO MAINTAIN PRODUCTION LARGELY THROUGH FORESIGHT OF MANAGEMENT TO STOCKPILE RAW MATERIALS. THEIR REQUIREMENT FOR CILICONE SAND WHICH COMES FROM ARE AROUND ASMARA IS BECOMING CRITICAL AND WILL BE DEPLETED BY THIRD WEEK IN FEBRUARY, UNLESS NEW ARRANGEMENT IS MADE WITH EPMG AUTHORITIES TO BRING MATERIALS IN. LIKEWISE, SUPPLIES OF SODA ASH, PRINCIPALLY FROM KENYA ARE UNCERTAIN AND INCREASINGLY COSTLY. I.M.A., LARGEST LOCAL KNITWEAR FACTORY, HAS 4-5 MONTHS SUPPLY OF TAIWANESE YARN, BUT RECENT LOSS OF ONE SHIPMENT MEANS RESUPPLY WILL PROBABLY TAKE 6-8 MONTHS, THUS CAUSING OBVIOUS CONCERN. MANAGEMENT OF ALL FOUR FIRMS INDICATE THAT THERE ARE STILL PROBLEMS IN SHIPPING FINISHED PRODUCTS OUT TO REST OF ETHIOPIA WITH DELAYS OF UP TO ONE MONTH IN AWAITING CONVOYS. THEY ADMIT, HOWEVER, THAT SITUATION IS IMPROVING AND THAT FORMER UNCERTAINTIES HAVE DIMINISHED.

3. TRANSPORTATION: WHILE ERITREAN ROAD NETWORK REMAINS INTACT, IT IS STILL OFTEN NECESSARY TO MAKE EXCEPTIONAL EFFORTS TO BRING RAW MATERIALS TO ASMARA INDUSTRIES. IT IS APPARENT THAT WHEN RAW

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MATERIAL SITUATION VERGES ON BECOMING CRITICAL, INDUSTRIAL MANAGERS CAN PREVAIL UPON BG GETACHEW, MARTIAL LAW ADMINISTRATOR, TO PROVIDE NECESSARY SECURITY FORCES TO PROTECT CONVOYS AND TO APPLY PRESSURES TO CIVIL ADMINISTRATION TO FACILITATE TRANSPORTATION OF MATERIALS. FOR EXAMPLE, GENERAL MANAGER OF ASMARA BRANCH OF COMMERCIAL BANK REPORTS THAT IN ORDER TO MOVE REMAINING 10,000 TONS OF SESAME SEED FROM HUMERA TO ASMARA FOR PROCESSING AND EXPORT, GETAC EW HAS COMPELLED LOCAL INSURANCE COMPANIES TO PROVIDE COVERAGE FOR

VEHICLES AND FREIGHT AT CONCESSIONARY RATES. SUCH PRAGMATIC ACTIONS SHOULD EASE TRANSPORTATION DIFFICULTIES, BUT DOES NOT OFFER LONG-TERM SOLUTION.

4. EMPLOYMENT: IT IS APPARENT THAT EPMG IS DETERMINED TO MAINTAIN EMPLOYMENT LEVELS WITHOUT REGARD TO LEVEL OF PRODUCTIVITY. ALL FACTORIES VISITED ARE EMPLOYING SAME NUMBER OF WORKERS AS LAST YEAR, ALTHOUGH PRODUCTION AT ALL PLANTS EXCEPT FLASS FACTORY, IS KNOWN TO BE BELOW LAST YEAR'S LEVEL. KNITWEAR FACTORY, FOR EXAMPLE, HAS APPLIED TO REPLACE MANUALLY OPERATED MACHINERY WHICH IS NOT PROFIT-ABLE WITH AUTOMATED EQUIPMENT. THEY WERE TOLD TO SUSPEND SUCH PLANS UNTIL FURTHER NOTICE AS IT WOULD MEAN LAYING OFF ABOUT 500 EMPLOYEES. LIKEWISE, EPMG SURVEY HAS RECOMMENDED THAT ASMARA-MASSAWA RAILROAD WHICH HAS LONG BEEN DEFICIT OPERATION, SHOULD BE CLOSED DOWN. CONCERN, HOWEVER, ABOUT LAYING OFF REMAINING 900 WORKERS OF ORIGINAL 3500, HAS CAUSED DEFERMENT OF THIS RECOMMENDATION. CONVERSELY, BARATOLO REPORTS THAT HARVEST OF COTTON CROP AT TESSENNEY PLANTATION IS SEVERELY HINDERED BY LACK OF AGRICULTURAL WORKERS (DOWN TO 1800 FROM LAST YEAR'S 6000).

5. COMMENT: PERHAPS MOST STARTLING FACT ABOUT INDUSTRIAL ACTIVITY IN ERITREA IS THAT, DESPITE ADVERSITIES, SUCH ACTIVITY CONTINUES AT ALL. THIS CAN BE ATTRIBUTED TO BOTH RESOURCEFULNESS OF INDUSTRIAL MANAGERS IN SOLVING SHORT-TERM PROBLEMS AND INCREASING CONCERN AND UNDERSTANDING BY SENIOR EPMG OFFICIALS OF IMPACT OF ECONOMIC SITUATION ON OVERALL PROBLEMS IN ERITREA.
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